

Financial Examinations

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Financial Exams



Exam Team

- Chief financial examiner
- Audit managers
- Examiners in charge
- Info. system examiners
- Field examiners
- Examiner/analysts



Financial Exams



SLIDE 4

NAIC's state-based exam system

- Exam reports: provide history and operations of company
- Multi-state insurers subject to risk-focused examination
- Exam subject to accreditation
 - ▶ Standardizes examination process between all states
 - ▶ Other states rely on each other's exams
 - ▶ Eliminates need for exam by each state



Financial Exams



SLIDE 2

Analysis and Support Team

- Chief financial analyst
- Analyst specialist
- Analyst
- Reinsurance examiner
- Life, P&C actuaries



Financial Exams



SLIDE 5

Exam Frequency

- At least every 5 years for Missouri domestics
- Actual cycle: 3-5 years, depending on insurer priority
- About 100 commercial life, P&C, health co's.
- 125 other special insurance entities
- Dozen open exams at any one time
- Complete 40 or more exams each year



Financial Exams



SLIDE 3

Examiner Resources

- Examiner handbook
- Exam tracking system
- NAIC solvency and Analysis Tools
- Analyst
- Participating States



Financial Exams



SLIDE 6

Examiners v. analysts

- Examiners perform on-site exams every 3 to 5 years
- Analysts provide desk review of companies continuously
- Analysts help prepare examiners before exams and follow up afterward
- Analysts assigned to specific companies



Analysis process

- Review holding company reports
 - ▶ Form A
 - ▶ Form B & C
 - ▶ Form D
 - ▶ Dividend requests
 - ▶ Surplus note interest requests



Analysis process

- Begins, ends with analysis – continuous process
- Provides continual monitoring before, during, after exam
- Provides early identification of risks, negative trends
- Provides follow up to exam issues and supervisory plan
- Reviews changes in company operations between exams



Analysis process (cont'd)

- Utilize NAIC solvency & analysis tools
 - ▶ Scoring & IRIS reports
 - ▶ Analyst team system
 - ▶ Financial analysts handbook
 - ▶ Jumpstart reports
 - ▶ Profile summary
 - ▶ Peer company analysis



Analysis process

- Review financial reports
 - ▶ Quarterly financial reports
 - ▶ RBC report
 - ▶ Actuarial report
 - ▶ Management discussion & analysis
 - ▶ Audited financials



Analysis process (cont'd)

- Analysis reports
 - ▶ Detailed quarterly financial analysis
 - ▶ Background and history
 - ▶ Holding company analysis
 - ▶ Insurer profile
 - ▶ Risk matrix
 - ▶ Utilized by examiners



Risk-focused exam

- Identifies risks that may threaten the company
- More than verifying financial condition at a point in time in the past
- Combines work by DIFP analysis and examination teams
- Continuous cycle of supervision tailored to risk identified



On-site exam process (cont'd)

- Phase 2 – Identify, assess inherent risks in key activities
 - ▶ Financial and non-financial as well as type of risk
- Phase 3 – Identify, evaluate risk mitigation strategies and controls
 - ▶ Determine if procedures, oversight, and control are appropriate
 - ▶ SOX and MAR documentation helpful



On-site exam process

- First-hand assessment of risks identified by analyst
- Uncovers previously unidentified risks
- Provides evidence of compliance and non-conformance
- Provides recommendations and suggestions to the company for analyst follow-up
- Provides evidence, input to support priority level and supervisory plan



On-site exam process (cont'd)

- Phase 4 - Determine residual risk
 - ▶ Consider effectiveness of mitigation strategies per risk
 - ▶ Level of residual risk determines where to focus resources
- Phase 5 – Establish, conduct detailed examination procedures
 - ▶ High residual risk detailed transactional level testing
 - ▶ More use of analytics as residual level decreases



On-site exam process

- Scheduling – Call exam alerting other states and the company
- Phase 1 - Gather information from multiple sources to determine key activities
 - ▶ Discuss with analyst, utilize analyst reports, NAIC tools
 - ▶ Internal & external audit, other co. sources
 - ▶ Interviews: C-suite to manager level, top down



On-site exam process (cont'd)

- Phase 6 - Update prioritization, supervisory plan
 - ▶ Based on findings revise priority level up or down
 - ▶ Modify supervisor plan to match new priority level
- Phase 7 – exam report and management letter
 - ▶ Draft report, request company comment
 - ▶ Issue management letter for observations and suggestions



Exam completion

- Release to public
 - ▶ Issue exam order
 - ▶ Notify company exam will be public in 10 days
 - ▶ Request affidavits and response to recommendations
 - ▶ Post at insurance.mo.gov
 - ▶ Close in NAIC exam tracking system



Model Holding Company Act

- Form F –Enterprise Risk Management Report
- Confidentiality
- Corporate governance
- Supervisory colleges



Post exam

- Analyst ensures affidavits and responses are received
- Reviews responses in consultation with examiner in charge
- Analyst conducts follow-up as needed
- Analyst monitors company pursuant to supervisory plan



Own Risk & Solvency Assessment Act

- Only applies to very large insurers
- Maintain a risk management framework
- Complete an Own Risk and Solvency Assessment (ORSA)
- Submit a summary report



Continuous supervisory system

- Cycle does not end between on-site exams
- Analyst an integral part of post-exam process
- On-site exam verifies and enhances understanding of the company
- Analyst utilizes exam information to enhance their review
- Joint approach ensures proper supervisory plan, enhances resolution of exam findings & recommendations

